

Question Paper
Financial Accounting – I (MB131) : July 2008

- Answer all 70 questions.
- Marks are indicated against each question.

Total Marks : 100

1. A business concern is separate from its owner. This statement is based on <Answer>
- (a) Money measurement concept
 - (b) Accrual concept
 - (c) Business entity concept
 - (d) Going concern concept
 - (e) Realization concept.
- (1 mark)**
<Answer>
2. Carriage inwards is the cost of transportation of <Answer>
- (a) Bringing the raw materials into the factory
 - (b) Bringing the sales returns back to the distribution point
 - (c) Sending the purchase returns to the supplier
 - (d) Sending the finished goods to the market
 - (e) Sending the finished goods from the factory to the distribution point.
- (1 mark)**
<Answer>
3. Which of the following is shown in the asset side of the balance sheet under ‘miscellaneous expenditure’? <Answer>
- (a) Interest paid on bank loan
 - (b) Expenses incurred for postage & stamp
 - (c) Expenses paid for telephone charges
 - (d) Interest paid on debentures
 - (e) Discount on issue of debentures.
- (1 mark)**
<Answer>
4. The systematic allocation of the costs of intangible assets over the periods in which they provide benefits is called <Answer>
- (a) Depreciation
 - (b) Wear and tear
 - (c) Obsolescence
 - (d) Appropriation
 - (e) Amortization.
- (1 mark)**
<Answer>
5. The debit side of the nominal account shows <Answer>
- (a) Assets
 - (b) Expenses
 - (c) Incomes
 - (d) Liabilities
 - (e) Profits.
- (1 mark)**
<Answer>
6. Provision for taxation for current year is <Answer>
- (a) Debited to Profit and Loss account
 - (b) Credited to Profit & Loss account
 - (c) Debited to Profit and Loss Appropriation account
 - (d) Credited to Profit and Loss Appropriation account
 - (e) Shown as foot notes to balance sheet.
- (1 mark)**
<Answer>
7. Which of the following items is generally **not** considered as part of inventory? <Answer>
- (a) Raw-material
 - (b) Work-in-progress
 - (c) Consumables
 - (d) Loose tools
 - (e) Machinery spares.
- (1 mark)**
<Answer>
8. Which of the following statements is **false** with regard to rights issue? <Answer>
- (a) Rights issue is made to the existing shareholders
 - (b) In rights issue too, there is a chance of over-subscription and pro-rata allotment of shares
- (1 mark)**

- (c) The price of a rights share is much less than the existing market price per share
- (d) The flotation cost of rights issue is low
- (e) The accounting entries in the books of the company for rights issue are the same as those required for a new issue of shares to the public.

[<Answer>](#)

9. The contingent liabilities of a concern appear in

- (a) Secured loans of balance sheet
- (b) Notes to balance sheet
- (c) Current liabilities of balance sheet
- (d) Profit & Loss Appropriation account
- (e) Profit & Loss account.

(1 mark)

[<Answer>](#)

10. The Profit and Loss account of a business concern gives information regarding its

- (a) Profit or loss for a particular period
- (b) Financial position during a particular period
- (c) Profit earning capacity for a particular period
- (d) Financial position on a particular date
- (e) Operating efficiency on a particular date.

(1 mark)

[<Answer>](#)

11. Which of the following is a liability of a firm?

- (a) The total of discount column on debit side of cash book
- (b) The total of discount column on the credit side of cash book
- (c) Debit balance of bank column of cash book
- (d) Debit balance of cash column of cash book
- (e) Credit balance of bank column of cash book.

(1 mark)

[<Answer>](#)

12. The going concern concept states that

- (a) The business concern is assumed to carry on its operations forever
- (b) The resources of the business concern would last for that year only
- (c) The assets of the business concern are to be sold off immediately after the current use
- (d) The business concern is going to close its operations within a short term
- (e) The business concern is established for current year and would wind-up at the end of the year.

(1 mark)

[<Answer>](#)

13. Which of the following is **true** when payment is made to a creditor?

- (a) Only the asset side of the balance sheet will increase
- (b) The expense side of the Profit and Loss account will increase
- (c) Only the liability side of the balance sheet will increase
- (d) The income side of the Profit and Loss account will decrease
- (e) Both the asset side and the liability side of the balance sheet will decrease.

(1 mark)

[<Answer>](#)

14. The debit balance in the furniture account has been taken as Rs.5,650 instead of Rs.5,850. This type of error is a/an

- (a) Error of complete omission
- (b) Error of principle
- (c) Error of partial omission
- (d) Compensating error
- (e) Error of commission.

(1 mark)

[<Answer>](#)

15. Purchase of office furniture on credit is recorded in

- (a) Journal proper
- (b) Bills receivable book
- (c) Purchases book
- (d) Cash book
- (e) Sales book.

(1 mark)

[<Answer>](#)

16. Which of the following statements is **false**?

- (a) Prepaid expenses are shown on the assets side of the balance sheet
- (b) Income received in advance is shown on the assets side of the balance sheet
- (c) Preliminary expenses are shown on the assets side of the balance sheet
- (d) Accrued income is shown on the assets side of the balance sheet
- (e) Outstanding expenses are shown on the liabilities side of the balance sheet.

(1 mark)

17. Obsolete inventory should be valued at

[<Answer>](#)

- (a) Nominal value
- (b) Market value
- (c) Net realizable value
- (d) Cost price or market price, whichever is lower
- (e) Acquisition cost.

(1 mark)

18. The amount available in securities premium account **cannot** be utilized to

[<Answer>](#)

- (a) Provide premium payable on the redemption of debentures
- (b) Write-off preliminary expenses
- (c) Write-off commission paid on issue of debentures
- (d) Provide for the premium payable on the redemption of redeemable preference shares
- (e) Convert partly paid shares into fully paid shares.

(1 mark)

19. Withdrawal of goods from stock by the owner of the business for personal use should be recorded by debiting

[<Answer>](#)

- (a) Drawings account and crediting cash account
- (b) Drawings account and crediting purchases account
- (c) Drawings account and crediting creditors account
- (d) Purchases account and crediting drawings account
- (e) Stock account and crediting capital account.

(1 mark)

20. A cheque deposited, but not collected should be deducted when preparing a bank reconciliation statement starting with a/an

[<Answer>](#)

- I Favorable balance of cash book.
- II Overdraft of pass book.
- III Favorable balance of pass book.

- (a) Only (I) above
- (b) Only (II) above
- (c) Only (III) above
- (d) Both (I) and (II) above
- (e) Both (II) and (III) above.

(1 mark)

21. Mr. Mukherjee pays ABC Ltd., an amount of Rs.3,000 on June 15, 2008 to perform services for him in July 2008. To record this transaction in June, 2008, ABC Ltd., debited Cash account and the other account involved is

[<Answer>](#)

- (a) Accounts receivable account (asset)
- (b) Prepaid expense account (asset)
- (c) Services Provided account (income)
- (d) Unearned income account (liability)
- (e) Outstanding income account (asset).

(1 mark)

22. Net worth of a business is equal to

[<Answer>](#)

- (a) Total assets minus current liabilities minus reserves & surplus
- (b) Total assets minus current liabilities minus owner's equity
- (c) Total assets minus owner's equity minus reserves & surplus
- (d) Total assets minus current liabilities minus long term liabilities
- (e) Total assets minus reserves & surplus minus long term liabilities.

(1 mark)

23. Which of the following items is to be added while preparing a bank reconciliation statement starting with the favorable balance of pass book?

[<Answer>](#)

- (a) An amount directly deposited in the bank is not entered in cash book
- (b) Cheques issued are not presented for payment up to the date of bank reconciliation statement
- (c) Interest credited in the pass book is not entered in the cash book
- (d) Cheques deposited are dishonored but the dishonor not entered in cash book
- (e) Interest on fixed deposit transferred to the current account as per instructions is not entered in cash book.

(1 mark)

24. Which of the following factors does **not** contribute to goodwill?

[<Answer>](#)

- (a) Location of business premises
- (b) Nature of firm's products or reputation of service

(1 mark)

- (c) Possession of favorable contracts
 (d) Huge amount of debt owed by the company
 (e) Possession of efficient & contented employees. [<Answer>](#)
25. The account created for redemption of preference shares is [<Answer>](#)
- (a) Capital Redemption Reserve account
 (b) Capital Reserve account
 (c) Revaluation Reserve account
 (d) Debenture Redemption Reserve account
 (e) Dividend Equalization account. (1 mark) [<Answer>](#)
26. Which of the following statements is **false**? [<Answer>](#)
- (a) A company is allowed to adjust excess application money towards allotment
 (b) A company is allowed to forfeit the call money paid in advance by the shareholders
 (c) A company is allowed to re-issue forfeited shares at premium
 (d) A company is allowed to issue shares to promoters
 (e) A company is allowed to issue partly convertible debentures. (1 mark) [<Answer>](#)
27. Which of the following is an example of capital expenditure? [<Answer>](#)
- (a) Insurance premium
 (b) Taxes and legal expenses
 (c) Depreciation on machinery
 (d) Discount allowed
 (e) Installation charges of machinery. (1 mark) [<Answer>](#)
28. The maximum amount beyond which a company is **not** allowed to raise funds by issue of shares is [<Answer>](#)
- (a) Issued capital
 (b) Reserve capital
 (c) Authorized capital
 (d) Subscribed capital
 (e) Paid-up capital. (1 mark) [<Answer>](#)
29. The most suitable method of inventory valuation for items like perishable food products is [<Answer>](#)
- (a) First-In First-Out
 (b) Specific Identification
 (c) Weighted average
 (d) Perpetual
 (e) Periodic. (1 mark) [<Answer>](#)
30. When shares are forfeited, the share forfeiture account is [<Answer>](#)
- (a) Credited with the amount paid on the forfeited shares
 (b) Debited with amount called up on the forfeited shares
 (c) Credited with the nominal value of the forfeited shares
 (d) Debited with the issued price of the forfeited shares
 (e) Credited with the amount unpaid on the forfeited shares. (1 mark) [<Answer>](#)
31. Which of the following is **not** a depreciation method? [<Answer>](#)
- (a) Straight line method
 (b) Written down value method
 (c) Sum-of-the-years'-digits method
 (d) Units-of-production method
 (e) Fair value method. (1 mark) [<Answer>](#)
32. Which of the following appears in the Profit and Loss Appropriation account? [<Answer>](#)
- (a) Provision for bad debts
 (b) Provision for depreciation
 (c) Directors' remuneration
 (d) Interim dividend
 (e) Penalty for delay in payment of tax. (1 mark) [<Answer>](#)
33. Which of the following is **true** if goods purchased are Rs.5,000, trade discount received is Rs.200 and cash discount received is Rs.50? [<Answer>](#)
- (1 mark)

- (a) Cash account is credited with Rs.4,750 and discount received account is credited with Rs.50
- (b) Cash account is credited with Rs.4,750 and discount received account is debited with Rs.50
- (c) Cash account is credited with Rs.4,800 and discount received account is debited with Rs.50
- (d) Cash account is credited with Rs.4,800 and discount received account is credited with Rs.50
- (e) Cash account is credited with Rs.4,750 and discount received account is credited with Rs.250.

[<Answer>](#)

34. The increase in equity from major activities of a business entity is generally known as

- (a) Capital
- (b) Gross profit
- (c) Net worth
- (d) Net profit
- (e) Cash on hand.

(1 mark)

[<Answer>](#)

35. If the benefit of an expenditure is derived only in the year in which it is incurred, it is known as

- (a) Revenue expenditure
- (b) Non-recurring expenditure
- (c) Deferred expenditure
- (d) Capital expenditure
- (e) Miscellaneous expenditure to the extent not written off.

(1 mark)

[<Answer>](#)

36. Which of the following statements is **false** regarding underwriting?

- (a) An underwriter guarantees that the shares underwritten by him will be sold
- (b) The company undertakes to pay an underwriting commission for the service rendered by underwriter
- (c) Underwriting commission need not be paid on shares required to be purchased by the underwriter as per agreement
- (d) Underwriting commission is allowed for undertaking the issue of debentures
- (e) If the public do not take up all the shares, the underwriter will himself purchase the remaining shares.

(1 mark)

[<Answer>](#)

37. The feature of straight line method of depreciation is that

- (a) The amount of depreciation keeps increasing every year while the rate of depreciation keeps decreasing
- (b) The amount of depreciation and the rate of depreciation remain same every year
- (c) The amount of depreciation decreases while the rate of depreciation remains the same
- (d) The amount of depreciation and the rate of depreciation increase every year
- (e) The amount of depreciation increases while rate of depreciation remains the same.

(1 mark)

[<Answer>](#)

38. Which of the following is a source of fund?

- (a) Acquiring assets
- (b) Incurring expenses
- (c) Incurring losses
- (d) Incurring liabilities
- (e) Paying dividends.

(1 mark)

[<Answer>](#)

39. Prepaid insurance appearing in the trial balance should be

- (a) Debited to Profit and Loss account as an expense
- (b) Debited to Profit and Loss Appropriation account as an appropriation
- (c) Shown as current liability in the balance sheet
- (d) Shown as current asset in the balance sheet
- (e) Reduced from related expense in the Profit and Loss account.

(1 mark)

[<Answer>](#)

40. If the opening inventory of a business is overcast, it will

- (a) Increase gross profit and decrease net profit
- (b) Decrease gross profit as well as net profit
- (c) Increase value of assets
- (d) Increase gross profit as well as net profit
- (e) Decrease value of assets.

(1 mark)

[<Answer>](#)

41. The total of debit column of trial balance of a company is Rs.2,50,000 and that of the credit column is Rs.2,78,000. Subsequently the following errors are discovered:

(2 marks)

Particulars	Correct Amount (Rs.)	Amount which appears in trial balance (Rs.)
Advertisement expenses	20,000	10,000 (credit side)
Interest from investments	45,000	43,000

The total of the correct trial balance is

- (a) Rs.2,68,000
- (b) Rs.2,50,000
- (c) Rs.2,70,000
- (d) Rs.2,82,000
- (e) Rs.2,72,000.

[<Answer>](#)

42. The cost of goods sold of Hawaii Ltd., is Rs.1,00,000. If the opening stock is more than the closing stock by Rs.30,000, the total purchases will be

- (a) Rs.1,10,000
- (b) Rs. 90,000
- (c) Rs. 70,000
- (d) Rs. 37,500
- (e) Rs. 45,000.

(2 marks)

[<Answer>](#)

43. Consider the following data pertaining to a Samasony VCD Ltd., for the month of June 2008:

Date	Receipts (Qty.)	Rate per unit (Rs.)	Issues (Qty.)
June 2	10	4,500	–
June 6	15	5,000	–
June 12	-	-	5
June 15	–	–	15

The value of closing inventory under First-In-First-Out method as on June 30, 2008 was

- (a) Rs.22,500
- (b) Rs.25,000
- (c) Rs.26,250
- (d) Rs.45,000
- (e) Rs.52,500.

(2 marks)

[<Answer>](#)

44. If a purchase return of Rs.84 has been wrongly posted to the debit of the sales return account, but had been correctly entered in the suppliers account, the total of the trial balance would show

- (a) The credit column to be Rs.84 more than debit column
- (b) The debit column to be Rs.84 more than credit column
- (c) The credit column to be Rs.168 more than debit column
- (d) The debit column to be Rs.168 more than credit column
- (e) Both the debit column and credit column tally.

(2 marks)

[<Answer>](#)

45. Duper Ltd., issued 1,000 Debentures of Rs.100 each at par. Holders of these debentures have an option to convert their holdings to equity shares of Rs.100 each at a premium of Rs.25, at any time within 5 years. The total number of equity shares to be issued, if all the debenture holders opt for the conversion, is

- (a) 750
- (b) 700
- (c) 1,388
- (d) 416
- (e) 800.

(2 marks)

[<Answer>](#)

46. The following is the balance sheet of ARC Ltd. :

Balance Sheet of ARC Ltd.

Liabilities	Rs.	Assets	Rs.
10,000, 6% Preference shares of	1,00,000	Fixed assets	5,50,000
5,000 equity shares of Rs.100	5,00,000	Current assets	3,70,000
Reserves & surplus	6,20,000	Investment at cost (face	
Creditors	50,000	Preliminary expenses	50,000
Total	12,70,000	Total	12,70,000

(2 marks)

Total	12,70,000	Total	12,70,000
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The value of each equity share under intrinsic value method is

- (a) Rs.185
- (b) Rs.214
- (c) Rs.194
- (d) Rs.186
- (e) Rs.195.

[<Answer>](#)

47. XYZ Ltd., furnishes the following details:

Value of machinery as on April 01, 2005	Rs. 12,000
Rate of depreciation	30%
Method of depreciation	written down value

The total accumulated depreciation charged in respect of the machinery up to March 31, 2008 was

- (a) Rs.7,884
- (b) Rs.6,116
- (c) Rs.4,116
- (d) Rs.1,764
- (e) Rs.2,000.

(2 marks)

[<Answer>](#)

48. Swathi Ltd., introduced the imprest system of petty cash book, the amount of imprest being Rs.2,000.

The petty cash transactions during the month of June 2008 were as under:

Particulars	Rs.
Postage	245
Wages	286
Office cleaning	428
Stationery	354
Conveyance	193

The amount of cash received on July 01, 2008 to make up the imprest balance was

- (a) Rs.1,504
- (b) Rs. 494
- (c) Rs. 496
- (d) Rs.1,506
- (e) Rs.1,100.

(2 marks)

[<Answer>](#)

49. Walter Ltd., issued 20,000, 8% Debentures of Rs.10 each at par, which are redeemable after 5 years at a premium of 20%. The amount of loss on redemption of debentures to be written off every year is

- (a) Rs.40,000
- (b) Rs.10,000
- (c) Rs.20,000
- (d) Rs. 8,000
- (e) Rs.12,000.

(2 marks)

[<Answer>](#)

50. Meredith Ltd., furnishes the following information as on April 01, 2007:

Particulars	Rs.
Equity share capital	
10,000 equity shares of Rs. 10 each, fully paid up	1,00,000
Securities premium account	84,000

During the year a bonus issue of one equity share for every two equity shares held was made. The equity share capital account as on March 31, 2008 was

- (a) Rs.1,50,000
- (b) Rs.1,42,000
- (c) Rs.1,54,000
- (d) Rs.1,34,000
- (e) Rs.1,00,000.

(2 marks)

[<Answer>](#)

51. AGC Ltd., holds 14% Debentures of the face value of Rs. 5,000 in XY Ltd. The interest is payable on June 30 and December 31 of every year. The debentures were purchased on July 01, 2007. The company closes its accounts on March 31 of every year. The amount in accrued interest account in the

(2 marks)

books of AGC Ltd., on March 31, 2008 was

- (a) Rs.525 (debit balance)
- (b) Rs.175 (debit balance)
- (c) Rs.175 (credit balance)
- (d) Rs.525 (credit balance)
- (e) Rs.350 (debit balance).

[<Answer>](#)

52. Ambica Ltd., furnished the following information as on March 31, 2008:

Particulars	Rs.
Paid-up equity share capital of 10,000 shares of Rs.100 each	10,00,000
Fixed assets	8,00,000
Current assets	4,01,200
Reserves and surplus	50,000

The sundry creditors were one-fourth of total liabilities owed to outsiders. The sundry creditors of Ambica Ltd., as on March 31, 2008 were

- (a) Rs. 1,13,400
- (b) Rs. 37,800
- (c) Rs. 1,51,200
- (d) Rs.11,51,200
- (e) Rs.12,01,200.

(2 marks)

[<Answer>](#)

53. Consider the following data pertaining to Universal Computers Ltd.:

Accumulated depreciation for 10 years	Rs.61,250
Scrap value of machinery	Rs.10,000
Useful life of machinery	10 years

If the company charged depreciation under straight line method, the acquisition cost of the machinery was

- (a) Rs.71,500
- (b) Rs.51,250
- (c) Rs.71,250
- (d) Rs.51,500
- (e) Rs.42,000.

(2 marks)

[<Answer>](#)

54. Electronics Ltd., issued 1,00,000 equity shares of Rs.10 each at par. The amount payable on the shares :

On Application	Rs.2
On Allotment	Rs.3
On First and Final Call	Rs.5

Application money was received on 1,20,000 shares. Excess application money was refunded immediately. All other amounts were received except final call money on 1,000 shares. The paid-up capital is

- (a) Rs.12,00,000
- (b) Rs.10,00,000
- (c) Rs. 9,95,000
- (d) Rs.10,35,000
- (e) Rs.10,40,000.

(2 marks)

[<Answer>](#)

55. If the company issues Rs.50,000 worth of equity shares at par for redemption of preference shares having a face value of Rs.3,50,000, the amount to be transferred to capital redemption reserve account is

- (a) Rs. 80,000
- (b) Rs.3,20,000
- (c) Rs.3,80,000
- (d) Rs.4,00,000
- (e) Rs.3,00,000.

(2 marks)

[<Answer>](#)

56. Senex Ltd., allotted 10,000 shares to applicants of 15,000 shares on pro rata basis. Pramod was allotted 420 shares. The number of shares applied by Pramod was

- (a) 460 shares
- (b) 340 shares

(2 marks)

- (b) 340 shares
- (c) 280 shares
- (d) 630 shares
- (e) 360 shares.

57. When sales are Rs.5,20,000, gross loss is 25% on sales, purchases are Rs.3,50,000 and closing stock is Rs.50,000, the stock at the beginning would be

[<Answer>](#)

- (a) Rs. 70,000
- (b) Rs. 94,000
- (c) Rs.1,34,000
- (d) Rs.3,50,000
- (e) Rs. 30,000.

(2 marks)

[<Answer>](#)

58. Owner's equity at the beginning of the year was Rs.75,000. During the year, the owner contributed Rs.15,000 towards additional capital and withdrew Rs.8,500 for his personal use. If the firm had a net profit of Rs.16,500 for the year, the owner's equity at the end of the year was

- (a) Rs.1,08,500
- (b) Rs.1,06,500
- (c) Rs. 92,000
- (d) Rs. 98,000
- (e) Rs. 99,000.

(2 marks)

[<Answer>](#)

59. As on March 31, 2008, the overdraft of Mr. Mohan as per bank pass book is Rs.25,000. The pass book balance did not agree with the balance as per cash book. On scrutiny, the following omissions and commissions were noticed:

- Mr. Satish, a tenant, directly deposited an amount of Rs.20,000 into the bank account towards rent and the same is not accounted in the cash book.
- A cheque for Rs.15,000 received from Mr. Raghu entered in cash book, but not sent to bank for collection up to March 31, 2008.

The bank balance as per cash book is

- (a) Rs.20,000 (debit)
- (b) Rs.20,000 (credit)
- (c) Rs.30,000 (credit)
- (d) Rs.25,000 (debit)
- (e) Rs.30,000 (debit).

(2 marks)

[<Answer>](#)

60. ABC Ltd., earned a profit of Rs.25,000 during the year 2007-08. The following balances were extracted from the books of the company as on March 31, 2008:

Particulars	Rs.
Fixed Assets	4,50,000
Current assets	2,00,000
Current liabilities	45,000

The average capital employed by the company was

- (a) Rs.6,17,500
- (b) Rs.5,80,000
- (c) Rs.5,92,500
- (d) Rs.6,05,000
- (e) Rs.6,30,000.

(2 marks)

[<Answer>](#)

61. The capital employed by Mini Computers Ltd., was Rs.12,00,000. The profits of the company for the past three years were:

Year	Rs.
1	73,000
2	76,000
3	70,000

If the normal rate of return is 5%, the goodwill of Mini Computers Ltd., on the basis of 3 years' purchase of super profits is

(2 marks)

- (c) Rs.48,900
- (d) Rs.39,000
- (e) Rs.60,000.

[<Answer>](#)

62. A Ltd., purchased a second hand machinery in exchange of its shares. The book value of the machinery recorded by A Ltd., is Rs.2,25,000 and market value of the machinery is Rs.2,50,000. The face value of the company's each share is Rs.40. The number of shares issued were

- (a) 6,625 shares
- (b) 6,235 shares
- (c) 5,625 shares
- (d) 6,525 shares
- (e) 6,000 shares.

(2 marks)

[<Answer>](#)

63. A building standing in the books at Rs.1,30,000, was sold for Rs. 1,45,000. The gain on the sale of building was transferred to the Profit and Loss account, thus making the net profit to Rs.1,70,000. The profit earned from normal trading activities was

- (a) Rs.1,85,000
- (b) Rs.1,70,000
- (c) Rs.1,55,000
- (d) Rs.2,00,000
- (e) Rs.1,40,000.

(2 marks)

[<Answer>](#)

64. Tram Ltd., purchased 200 of its own 9% Debentures of Rs.100 each on January 01, 2008 @ Rs.98 each. Interest is payable on June 30. The debentures are purchased cum-interest. The amount debited to own debentures account was

- (a) Rs.18,700
- (b) Rs.19,600
- (c) Rs.20,000
- (d) Rs.24,500
- (e) Rs.23,000.

(2 marks)

[<Answer>](#)

65. The share forfeiture account of Prince Ltd., shows a credit balance of Rs. 20,000 for 2,500 shares (Rs.10 face value, fully called-up). Out of them 2,000 shares were reissued at Rs.7 per share. The amount transferred to capital reserve account was

- (a) Rs.14,500
- (b) Rs.10,000
- (c) Rs.14,000
- (d) Rs. 6,000
- (e) Rs.15,000.

(2 marks)

[<Answer>](#)

66. Consider the following data pertaining to ABL Ltd., for the year 2007-08:

Particulars	Rs.
Opening balance of debtors	1,00,000
Credit sales	1,95,000
Collection from debtors during the year	2,00,000
Discount allowed to debtors	5,000

The amount of closing debtors was

- (a) Rs.1,80,000
- (b) Rs. 90,000
- (c) Rs.2,95,000
- (d) Rs.1,96,000
- (e) Rs.2,00,000.

(2 marks)

[<Answer>](#)

67. Charminar Ltd., has provided the following information:

Particulars	Rs.
Opening balance of provision for bad debts	7,000
Bad debts written off during the year	9,000
The amount of provision for bad debts provided in the current year	12,000

The closing balance of provision for bad debts account was

(2 marks)

- (a) Rs.20,000
- (b) Rs.15,000
- (c) Rs.10,000
- (d) Rs.18,500
- (e) Rs. 7,000.

68. A company sublets its office accommodation and receives Rs.83,700 during the year 2007-08. Details of rent in arrears and in advance at the beginning and end of the year were:

[<Answer>](#)

	In arrears (Rs.)	In advance (Rs.)
April 01, 2007	3,800	2,400
March 31, 2008	4,700	3,000

The rental income for the year ended March 31, 2008 was

- (a) Rs.84,000
- (b) Rs.83,400
- (c) Rs.80,600
- (d) Rs.85,800
- (e) Rs.82,000.

(2 marks)

[<Answer>](#)

69. The following errors were made by the accountant of a company in the Profit and Loss account for the year 2007-08:

Selling expenses overstated by Rs.15,000
Discount received understated by Rs. 8,000

As a result of these errors, the net profit was

- (a) Overstated by Rs.23,000
- (b) Understated by Rs.23,000
- (c) Understated by Rs.15,000
- (d) Understated by Rs.8,000
- (e) Overstated by Rs.8,000.

(2 marks)

[<Answer>](#)

70. Consider the following data pertaining to Manasa Ltd., for the year ended March 31, 2008:

Particulars	Rs.
Gross profit	75,000
Selling expenses	25,000
Postage & telegraph	3,005
Repairs	10,000
Insurance	3,500

The manager of the business is entitled to a commission of 5% on net profit after charging his commission. The commission payable to the manager for the year 2007-08 was

- (a) Rs.1,800
- (b) Rs.1,675
- (c) Rs.2,360
- (d) Rs.1,595
- (e) Rs.1,574.

(2 marks)

END OF QUESTION PAPER

Suggested Answers

Financial Accounting – I (MB131) : July 2008

Answer	Reason	≤
1. C	Business entity concept states that a business concern is a separate legal entity and is thus different from its owners. Thus option (c) is the correct answer.	≤
2. A	Carriage inwards is the cost of transportation of bringing the raw materials into the factory.	≤
3. E	Discount on issue of debentures is shown on the asset of the balance sheet under the head 'miscellaneous expenditure'.	≤
4. E	The systematic allocation of the costs of intangible assets over the periods in which they provide benefits is called amortization.	≤
5. B	Option (b) is the correct answer because the debit side of the nominal account shows expenses.	≤
6. A	Provision for taxation of current year is debited to Profit and Loss account.	≤
7. E	Machinery spares is not considered as part of inventory. All other items are included in inventory and treated as current asset.	≤
8. B	Rights issue is the issue of shares to the existing shareholders. Hence (a) is true. As the number of shares to which the existing shareholders are entitled is clearly specified, there is no chance of over-subscription. When there is no over-subscription, the pro-rata allotment does not arise. It is a false statement and hence (b) is the answer. The price of the Rights issue is much less than the existing market price as the Rights issue is a preferential issue only to the shareholders. The flotation cost of the Rights issue is low as the number of subscribers is limited and there is no need of underwriting the issue. The accounting entries for Rights issue are the same as those required for an issue of shares to the public.	≤
9. B	The contingent liabilities of a concern appear as foot notes to the balance sheet.	≤
10. A	Profit and Loss account is prepared to know the profit or loss of a business concern for a particular period. Thus option (a) is correct answer.	≤

11. E Credit balance of bank column of cash book represents bank overdraft and is a liability. Hence the answer is (e). The total of discount column on credit side of cash book represents an income. Debit balance of bank column of cash book and debit balance of cash column of cash book represents favorable balance. The total of discount column on debit side of cash book represents an expense. ≤
12. A The going concern concept states that the business concern is assumed to carry on its operations forever. ≤
13. E When payment is made to a creditor, creditors balance will decrease and cash balance will decrease. Thus, there is a decrease in both assets and liabilities in the balance sheet. Hence (e) is true. ≤
14. E Option (a) cannot be the answer because if the whole transaction is omitted to enter in the books of accounts then it is error of omission. Option (b) cannot be the answer because error of principle means wrong classification of revenue items as capital items and vice-versa, the total effect will be the same and hence the trial balance will tally. Option (c) cannot be the answer as the dual aspects of the transaction is recorded without any omission but with wrong amounts. Option (d) cannot be the answer because it is not a compensating error. Option (e) is the correct answer because wrong amount is debited in the correct account (furniture account). Therefore it is wrong calculation of balances in ledger account and it is called error of commission. ≤
15. A Purchase of office furniture on credit is recorded in Journal proper. Thus, (a) is the correct answer. ≤
16. B Income received in advance is a liability and shown on the liability side. All other statements are true. ≤
17. C The obsolete inventory should be valued at its net realizable value. The cost price or market price, whichever is lower is used in case of normal inventory but not in case of obsolete inventory. The acquisition cost is used for valuing fixed assets. The nominal value is not considered at all. Hence, the answer is (c). ≤
18. E Option (e) is the correct answer because securities premium amount should not be utilized to convert partly paid shares into fully paid shares. The securities premium collected in cash can be utilized to
- Provide premium payable on the redemption of debentures.
 - Write-off preliminary expenses.
 - Write-off commission paid on issue of debentures.
 - Provide for the premium payable on the redemption of preference shares.
19. B If the owner withdraws goods from the business, journal entry will be ≤
- | | |
|----------------------|-----|
| Drawings account | Dr. |
| To Purchases account | |
- Therefore option (b) is correct answer.
20. D A cheque deposited, but not collected should be deducted when preparing a bank reconciliation statement starting with a favorable balance of cash book or an overdraft of pass book. ≤
21. D Option (d) is the correct answer as ABC Ltd., has not yet performed its services as on June 30, 2008 and therefore it is income received in advance (unearned income) and it is a liability to ≤

the company.

22. D Net worth is what the company owns minus what the company owes. Hence, it is capital and reserves of the concern. Therefore, net worth of a business is total assets minus current liabilities and long term liabilities. ≤
23. D Option (d) is the correct answer. The cheques deposited are dishonored but the dishonor not entered in the cash book are to be added to the pass book bank balance to bring pass book bank balance equal to the cash book bank balance. ≤
24. D Option (d) is the correct answer because huge debts owed by the company will reduce the goodwill. Thus it does not contribute goodwill. Option (a), (b), (c), and (e) contribute to goodwill. ≤
25. A Option (a) is the correct answer. The account created for redemption of preference shares is Capital redemption reserve account. ≤
26. B A company is not allowed to forfeit the call money paid in advance by the shareholders. Hence, (b) is correct answer. ≤
27. E Installation charges of machinery is an example of capital expenditure as it is the cost incurred for increasing the earning capacity of a business. Other expenditures stated in (a), (b), (c) and (d) are examples of revenue expenditure. ≤
28. C The maximum amount beyond which a company is not allowed to raise funds by issue of shares is called nominal capital or authorized capital. The issued capital is that part of the nominal capital issued to the public and subscribed capital is that part of the issued capital which is subscribed by the public. Paid up capital is the amount which is paid-up by the shareholders. Reserve capital is that capital which will be called-up only in case of liquidation. Thus, alternative (c) is the correct answer. ≤
29. A First-In First-Out is the most suitable method of inventory valuation for perishable food products. This is because the first lot of products can go out first without spoilage. ≤
30. A When shares are forfeited the share forfeiture account is credited with the amount paid up on the forfeited shares (excluding securities premium amount received, if any, on the forfeited shares). ≤
31. E Fair value method is the method used for valuation of shares. Therefore, option (e) is the correct answer. ≤
32. D Interim dividend is an appropriation against the profits of a company and appears in Profit and Loss Appropriation account. All other items are charged against Profit and Loss account. ≤

33. A Trade discount received is not recorded in the books of account but deducted in the purchases book. Therefore the journal entry is ≤
- | | | |
|--------------------------|-----|-----------|
| Purchases a/c | Dr. | |
| To Cash a/c | | Rs. 4,800 |
| To Discount received a/c | | Rs. 4,750 |
| | | Rs. 50 |
- Hence (a) is the correct answer.

34. D The increase in equity from major activities of a business entity is known as net profit. ≤

35. A Option (a) is the correct answer because the benefit of the revenue expenditure is derived in the year in which the expenditure is incurred. ≤

36. C Option (c) is the correct answer because underwriting commission is paid on shares purchased by the underwriter as per agreement. ≤

37. B Under the straight line method of depreciation, the rate of depreciation is fixed and the amount of depreciation is also same. Hence, (b) is correct answer. ≤

38. D Incurring liability is a source of fund but not a use of fund. Acquiring assets, incurring expenses, incurring losses and paying dividends are all uses of funds. ≤

39. D Any item appearing in the trial balance will have one effect i.e., prepaid insurance appearing in the trial balance will be shown as current asset in the balance sheet. It cannot be debited to the Profit and Loss account. It cannot be debited to Profit and Loss Appropriation account. ≤

40. B If the opening inventory of a business was over cast it decreases the gross profit and net profit because the cost of goods sold will increase, thus decreasing the gross profit as well as net profit. Thus option (b) is the correct answer. ≤

41. C ≤

Particulars	Rs.
Total of debit side of trial balance	2,50,000
Add: Advertisement expenses	20,000
Total of trial balance (debit side)	2,70,000

Particulars	Rs.
Total of credit side of trial balance	2,78,000
Add : Interest on investments (less taken)	2,000
Less : Advertisement expenses (wrongly taken)	10,000
Total of trial balance (credit side)	2,70,000

42. C Cost of goods sold = Purchases + (Opening stock – Closing stock) ≤

Rs 1,00,000 = Purchases + Rs 30,000
Purchases = Rs 1,00,000 – 30,000
= Rs.70,000.

43. B Under FIFO method, the closing inventory consists of the latest stock thus, ≤

Stores ledger in the books of Samsony VCD Ltd.

Date	Purchases			Issues			Balance			
	Quantity Units	Rate Rs.	Rs.	Quantity Units	Rate Rs.	Rs.	Quantity Units	Rate Rs.	Rs.	Rs.
02-06-08	10	4,500	45,000				10	4,500	45,000	45,000
06-06-08	15	5,000	75,000				10	4,500	45,000	
							15	5,000	75,000	1,20,000
12-06-08				5	4,500	22,500	5	4,500	22,500	
							15	5,000	75,000	97,500
15-06-08				5	4,500	22,500				
				10	5,000	50,000	5	5,000	25,000	25,000

44. D If a purchase return of Rs.84 has been wrongly posted to the debit of the sales return account, but had been correctly entered in the suppliers account, the total of the trial balance would show the debit column to be Rs.168 more than credit column because firstly the purchase return should be credited, therefore the credit column is less by Rs. 84, and wrongly debited to sales return therefore the credit column of the trial balance is short by Rs. 168. ≤

45. E Debenture amount = 1000 units × Rs.100 = Rs.1,00,000 ≤
These Rs.1,00,000 debentures are converted into equity shares of Rs.100 each at a premium of Rs.25.
So, the amount of equity share per unit = Rs.100 + Rs.25 = Rs.125
No. of equity shares to be issued = Rs.1,00,000 ÷ 125 = 800 shares.

46. B Option (b) is the correct answer. ≤

Particulars	Rs.
Fixed assets	5,50,000
Investment	3,00,000
Current assets	3,70,000
Total Assets	12,20,000
	50,000
Less Creditors	11,70,000
Net assets	1,00,000
	10,70,000
less Preference Shareholders	
Net assets available to equity shareholders	

Value of each Equity share

$$= \frac{\text{Net Assets available to Equity shareholders}}{\text{Number of Equity Shares}} = 10,70,000 \div 5,000 = \text{Rs.214.}$$

47. A Original cost =Rs.12,000 ≤
Rate of depreciation as per written down method = 30%

Year	Dep as per WDV method (Rs.)
1	3,600 (12,000 × 30/100)
2	2,520 (8,400 × 30/100)
3	1,764 (5,880 × 30/100)
Total	7,884

48. D

≤

Particulars	Rs.	Rs.
Petty cash book		2,000
Postage	245	
Wages	286	
Office cleaning	428	
Stationery	354	
Conveyance	193	1,506
Balance as per cash book		494
Amount reimbursed		1,506
		2,000

49. D

Rs.

≤

Issued value of debentures is $20,000 \times \text{Rs.}10 = 2,00,000$
 Less: Redemption value of debentures $20,000 \times \text{Rs.}12$ (Rs.10+20% of Rs. 10) = 2,40,000
 Loss on redemption of debentures 40,000
 Loss to be written off per year is $\text{Rs.}40,000 \div 5 = \text{Rs.} 8,000$.

50. A

Equity share capital as on April 01, 2007 Rs.1,00,000
 Add: Bonus issue of 1 equity share
 for every two shares held $(10,000 \times 1) \div 2 = 5000 \times \text{Rs.}10 = \text{Rs.} 50,000$
 Total Rs.1,50,000.

≤

51. B

Rs.

≤

Total interest = $\text{Rs.}5,000 \times 9/12 \times 14/100 = 525$
 Less: Interest received as on 31st Dec 2007 = 350
 Accrued interest for 3 months
 As on March 31, 2008 175
 The journal entry will be
 Accrued interest a/c Dr. 175
 To interest received a/c 175

52. B

Total assets = Owner's equity + outside liabilities
 Fixed assets + current assets = Capital + Reserves + outside liabilities
 $\text{Rs.}8,00,000 + \text{Rs.}4,01,200 = \text{Rs.}10,00,000 + \text{Rs.}50,000 + \text{outside liabilities}$
 $\text{Rs.}12,01,200 = \text{Rs.}10,50,000 + \text{outside liabilities}$
 Outside liabilities = $\text{Rs.}1,51,200$
 Sundry creditors = $\text{Rs.}1,51,200 \div 4 = \text{Rs.}37,800$.

≤

53. C

Let acquisition cost of machinery be x.
 Scrap value = $\text{Rs.}10,000$
 Annual depreciation = $\text{Accumulated depreciation for 10 years} \div \text{useful life of machinery}$
 $= \text{Rs.}61,250 \div 10$
 $= \text{Rs.}6,125$.
 Depreciation per year under straight line method
 $= (\text{Acquisition cost of machinery} - \text{scrap value}) \div \text{number of years}$
 $= (x - \text{Rs.}10,000) \div 10$
 $\text{Rs.}6,125 = (x - \text{Rs.}10,000) \div 10$
 $\text{Rs.}61,250 = x - \text{Rs.}10,000$
 $x = \text{Rs.}61,250 + \text{Rs.}10,000 = \text{Rs.}71,250$
 Therefore acquisition cost of machinery = $\text{Rs.}71,250$.
 Alternatively
 Acquisition cost of machinery = $\text{Accumulated depreciation} + \text{scrap value of machinery}$
 $= \text{Rs.}61,250 + \text{Rs.}10,000$
 $= \text{Rs.}71,250$.

≤

54. C

Calls-in-arrear are deducted from share capital account to arrive at paid-up capital. Therefore, the paid-up share capital is $\text{Rs.}10,00,000 - \text{Rs.}5,000$ (1,000 shares \times $\text{Rs.}5$ (first and final call money)) = $\text{Rs.}9,95,000$.

≤

55. E

Where the preference shares are redeemed without a corresponding issue of shares, out of distributable profits, the 'gap' created in the capital needs to be filled up. For this purpose, an amount equal to the face value of the preference shares redeemed is transferred to the Capital

≤

Redemption Reserve from the undistributed profits such as the credit balances in Profit and Loss account, general reserve, dividend equalization reserve etc.

Thus in the case given, the amount to be transferred to capital redemption reserve

= (Rs.3,50,000 – Rs.50,000) = Rs.3,00,000.

56. D Since the allotment is made on pro rata basis, shares applied by Pramod were = $420 \times 15,000/10,000 = 630$ shares. ≤

57. D

Dr.		Trading account		Cr.	
Particulars	Rs.	Particulars	Rs.		
To Opening stock (Bal. fig.)	3,50,000	By Sales	5,20,000		
To Purchases	3,50,000	By Closing stock	50,000		
		By Gross loss (Rs.5,20,000 × 25/100)	1,30,000		
	7,00,000		7,00,000		

Hence, (d) is correct answer.

58. D The owners' equity at the beginning of the year = Rs.75,000
 Add: additional capital = Rs.15,000
 Net Profit = Rs.16,500
 Total = Rs.1,06,500
 Less: Drawings during the year = Rs.8,500
 Owners' equity at the at the end of the year = Rs.98,000. ≤

59. C Bank Reconciliation Statement as on March 31, 2008 ≤

Particulars	Rs.	Rs.
Overdraft as per Pass book		25,000
Add:		
Rent deposited by Mr. Satish directly into the bank	20,000	20,000
		45,000
Less:		
Cheque received from Mr. Raghu entered in cash book, but not sent for collection up to the date of BRS	15,000	15,000
Overdraft as per cash book		30,000

60. C ≤

Particulars	Rs.	Rs.
Fixed assets	4,50,000	
Current assets	2,00,000	
		6,50,000
Less: Current liabilities	45,000	45,000
Closing capital employed		6,05,000
Less: 1/2 of profit of 2007-08		12,500
Average capital employed		5,92,500

61. D Average Profit = (Rs.73,000 + Rs.76,000 + Rs.70,000) ÷ 3 = Rs.73,000
 Normal Profit = Rs.12,00,000 × 5% = Rs.60,000
 Super Profit = Rs.73,000- Rs.60,000 = Rs.13,000
 Goodwill = Rs.13,000 × 3 years = Rs.39,000. ≤

62. C Value of each share = Rs. 40
 Value of machinery = Rs. 2,25,000
 Therefore, number of shares issued = Rs.2,25,000 ÷ 40 = 5,625 shares. ≤

63. C Profit on sale of buildings is not a profit from operations.
 Therefore it should be deducted from net profit.
 Net profit = Rs.1,70,000
 Less: gain on sale of building = Rs. 15,000 ≤

Profit from normal trading activities Rs.1,55,000.

64. A The interest on 200 debentures = $\text{Rs.}20,000 \times 9/100 \times 6/12 = \text{Rs.}900$ ≤
 The purchase price is Rs.19,600 (Rs.98 × 200)
 Therefore the own debentures account is debited with = Rs.18,700 (Rs.19,600 – Rs.900).

65. B For 2,500 shares amount in shares forfeiture account = Rs.20,000 ≤
 Proportionate amount for 2,000 shares = $\text{Rs.}20,000 \times 2,000/2,500 = \text{Rs.}16,000$
 Forfeited shares are re-issued @Rs.7, fully paid
 Shortfall on reissue = $2,000 \times \text{Rs.}3 = \text{Rs.}6,000$
 Therefore the amount transferred to capital reserve account in respect of 2,000 shares =
 Rs.16,000- Rs.6,000= Rs. 10,000.

66. B

	Dr.	Sundry Debtors account	Cr.
	Particulars	Rs.	Particulars
	To Balance b/d	1,00,000	By Bank a/c (collection from debtors)
	To Credit sales a/c	1,95,000	By Discount allowed a/c
			By Balance c/d(bal fig)
		2,95,000	2,95,000

67. C

	Dr.	Provision for bad debts account	Cr.
	Particulars	Rs.	Particulars
	To Bad debts a/c	9,000	By Balance b/d
	To Balance c/d	10,000	By Profit and Loss a/c
		19,000	19,000

68. A

Particulars	Rs.	Rs.
Rent received during the year		83,700
Add: Outstanding rent on March 31, 2008	4,700	
Rent received in advance on April 01, 2007	2,400	7,100
Less: Outstanding rent on April 01, 2007	3,800	90,800
Rent received in advance on March 31, 2008	3,000	6,800
Total rent to be shown in the Profit and Loss account for the year ended March 31, 2008		84,000

69. B

Particulars	Profit increased Rs.	Profit decreased Rs.
Selling expenses overstated (Profit understated)		15,000
Discount received understated (Profit understated)		8,000
Net profit understated/decreased		23,000

70. D

Profit and Loss account for the year ended March 31, 2008
Dr. Cr.

≤

Particulars	Rs.	Particulars	Rs.
To Selling expense	25,000	By Gross profit	75,000
To Postage & telegraph	3,005		
To Repairs	10,000		
To Insurance	3,500		
To Manager's commission	1,595		
To Net Profit	31,900		
	75,000		75,000

Profit before charging manager's commission = Rs.33,495.

Manager's Commission = $\text{Rs.}33,495 \div 5/105 = \text{Rs.}1,595$.

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